

# Claim Administration

## Principles and Practices

THIRD EDITION

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## Settlement of Disability Claims

Instead of paying claims throughout a benefit period, sometimes insurers offer claimant a *disability claim settlement*, which is a lump-sum benefit payment from an insurer to a disabled claimant. In effect, a disability claim settlement cancels the coverage under the disability policy. In exchange for a settlement of the insured releases the insurer from all future liability.

Disability claim settlement offers are typically negotiable, and the claimant may make a counteroffer or may reject it. If the claimant rejects the settlement offer, the insurer has a continuing contractual obligation to pay disability benefits according to the provisions of the policy. A claim settlement may be offered whether a claim is disputed or undisputed.

### Disability Claim Settlements for Disputed Claims

Some disability claim settlements result from a disputed claim in which the insurer and the claimant cannot agree on all the terms of the claim. For example, the claimant may indicate that a disability is the result of an injury or illness, but claim investigation may indicate that the disability resulted from a pre-existing condition excluded by a policy provision.

A dispute may arise with both parties taking what appear to be reasonable positions. The insurer may offer a compromise: to settle the claim by paying the insured a lump sum in return for being released from liability. By settling the claim, the insurer can save administrative and litigation costs and can release the reserve held to support claim payments under the policy.

### Disability Claim Settlements for Undisputed Claims

Some disability claim settlements involve undisputed claims and result from the insurer's attempt to provide a large benefit to a claimant early in the claim, rather than paying lesser benefit amounts over time. The disability claim settlement allows the claimant to restructure her life to accommodate the disability. For example, the claimant may use the money to start or purchase a business, remodel her home to better accommodate her limitations, move to a more favorable location or climate, attend college or vocational training school, or invest as to produce income extending beyond the benefit period of the disability policy.

→ Disability claim settlements benefit the insurer because settlements eliminate the costs of administering the claim over time and allow the insurer to release the reserve required to support the benefits. In offering a lump-sum settlement, an insurer may advise the claimant to seek professional advice on legal, tax, accounting, and investment issues related to the settlement.

## Analyzing and Paying Group Credit Disability Insurance Claims

We have mentioned that group credit disability insurance provides a monthly benefit equal to a required monthly loan payment during the period when